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Construction of additional office facilities at the Economic Commission for Africa in Addis Ababa and at the United Nations Office at Nairobi

I. Introduction

1. The Advisory Committee on Administrative and Budgetary Questions has considered the reports of the Secretary-General on progress in the construction of additional office facilities at the Economic Commission for Africa in Addis Ababa (A/67/216) and the final update on the construction of additional office facilities at the United Nations Office at Nairobi (A/67/217). During its consideration of these reports, the Committee met with the representatives of the Secretary-General, who provided additional information and clarifications.

II. Progress in the construction of additional office facilities at the Economic Commission for Africa in Addis Ababa

2. The report of the Secretary-General (A/67/216) is submitted pursuant to General Assembly resolution 63/263, in which the Assembly endorsed the recommendation of the Advisory Committee that the Secretary-General submit annual progress reports for all ongoing construction projects. The report provides an update on the progress in the construction of additional office facilities at the Economic Commission for Africa (ECA) in Addis Ababa and on the renovation of the Africa Hall.

Construction progress

3. It is indicated in paragraph 5 of the Secretary-General's report that the duration of the construction phase of the project in ECA has been extended by a further four months to 31 December 2012 and that, as the construction phase is to be followed by a three-month fit-out period, the occupancy of the building has consequently been rescheduled for April 2013.

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4. Paragraphs 6 to 10 of the report provide information on issues that are being proactively addressed by the project team to ensure successful completion of the construction project within the new time frame. It is indicated in paragraph 7 of the report that the closure of the local quarry that produced the limestone planned for the building exterior has necessitated a change in the exterior cladding material and that the Commission had to import granite from India. In response to concerns raised by the Commission about project slippage, the contractor advised the Commission on 8 February 2012 that it had faced serious liquidity difficulties, which had resulted in delays in placing orders for materials to be imported from abroad, thereby impeding the project's progress. The delayed importation of materials remains a major risk factor to the completion of the project and, consequently, importation is being monitored closely by the Commission (A/67/216, para. 9).

5. It is indicated in paragraph 38 of the report that the Commission is working proactively with the contractor to mitigate the delays that have occurred in order to complete the project construction work by the end of December 2012. The Commission and the Office of Central Support Services have agreed upon a fast-track payment process, whereby the contractor could apply for payment upon presentation of certified shipping documents, rather than upon delivery on site, and ECA has assigned staff to assist in coordinating with the Government to support the importation process (A/67/216, para. 9). The Advisory Committee was informed that the contractor had undertaken a number of measures to improve its performance, including additional shifts at the construction site and the transport by airfreight of critical electromechanical items at no cost to the United Nations. Nevertheless, the Committee was informed that incoming building occupants had been notified of the possibility of an even later occupancy date. The Committee was also informed that the selection process for the contractor had been carried out in accordance with established procedures and that the selected contractor had satisfied the requirements for selection.

6. **The Advisory Committee notes the measures taken to address the issues impacting project implementation and emphasizes that all cases should be attended to through proactive project management. The Committee is concerned about the liquidity difficulties faced by the contractor, which constitute a significant risk to the project and may be reflective of weaknesses in the conduct of the vetting and selection process of potential vendors. It considers that the measures taken to deal with this matter are exceptional and intended solely to facilitate the timely completion of the project. Ordinarily, given the seriousness of the liquidity problems, the Committee would have expected stringent action against the contractor, consistent with industry best practices on contractual obligations.**

Coordination with the host Government

7. It is indicated in paragraph 9 of the report that the recent introduction by the host country of a new multimodal transport, clearing and delivery system is an added external logistical constraint. The Advisory Committee was informed, upon enquiry, that the new multimodal transport, clearing and delivery system required that all cargo was transferred and transported exclusively by a designated Government authority from the port of Djibouti to Modjo and to other inland dry ports inside Ethiopia, which had caused protracted delays in clearing shipments. The

lack of necessary warehouse facilities and vehicles serving the new system had also resulted in a backlog of commercial shipping containers in Djibouti awaiting transport into Ethiopia. The Committee was also informed that the Commission was working closely with the host country authorities to expedite importation actions related to the construction of the additional office facilities and to mitigate any risks associated with importation and handling.

8. The Advisory Committee was further informed that, following a formal meeting with officials of the host Government, the Commission had been granted an exception for the importation of material related to the construction of the additional office facilities, and the clearing agent was currently permitted to clear shipments at the port of Djibouti or at Addis Ababa Airport, which could be fast-tracked provided adequate written notification was given to the Ministry of Foreign Affairs. It was indicated to the Committee that the host Government had been building warehouses and facilities to enhance the multimodal transport, clearing and delivery system, and that the related processes and procedures were expected to be streamlined. **The Advisory Committee welcomes the support provided by the Government of Ethiopia and encourages the Commission to continue to coordinate with host Government authorities so as to mitigate the logistical challenges affecting the timely completion of the construction project.**

Project management

9. It is indicated in paragraph 21 of the report that the Commission's project management team, which reports directly to the Director of Administration, faces an additional burden as it strives to support the contractor in expediting importation of materials to ensure that the project is operational and delivered successfully. The Advisory Committee notes that the project team has developed additional measures to minimize further schedule delays, including expediting the manufacture and importation of critical electromechanical items, scheduling a phased handover of the building to accelerate interior fit-out activities (so that occupancy remains as close to the previous schedule as possible) and facilitating phased move-in, where possible (A/67/216, para. 32). **The Advisory Committee expects that the Commission will carefully monitor the progress towards the completion of the project and effectively coordinate the timely occupancy of the building in close consultation with the incoming occupants.**

Cost estimates

10. It is indicated in paragraphs 33 and 35, respectively, of the Secretary-General's report that the overall project budget remains at $15,333,244, and that the building construction cost has now decreased from the $9,194,940 reported previously to $8,955,775, while the contingency amount has increased from $191,186 to $421,301, creating leeway to mitigate further risks to the project. The Advisory Committee was informed that the construction project in Addis Ababa was expected to be completed within the approved overall budget and that the increased costs incurred by subsequent amendments to the original construction contract had been offset by the savings realized from a value engineering exercise undertaken by the Commission and the Office of Central Support Services.

11. The Advisory Committee notes that the value engineering exercise was undertaken to address concerns expressed by the General Assembly in its resolution

66/247 regarding the increased risk to the project following an estimated expenditure of $734,000 drawn from the budgeted contingency provision owing to an error by the architecture and construction management consultant, and that value engineering will continue to be undertaken for all project activities (A/67/216, para. 13). The Committee also notes that the design works for the ancillary projects are completed, but that bids may be higher than the current estimates, as final estimates are being determined pending negotiations with vendors and possible value engineering initiatives. The report indicates in paragraph 12 that vehicular parking will be at the ground level, rather than the multistorey plan which, the Committee recalls, was originally approved by the Assembly in its resolution 62/238. **The Advisory Committee stresses that value engineering should be continually pursued as a best practice rather than an ex post facto reaction to project implementation problems. Such an approach could maximize savings and the cost effective use of resources, while ensuring, inter alia, that the quality, functionality and scope of projects are not compromised, and that the integrity of the architectural designs is preserved (see also A/64/7/Add.5, para. 18).**

12. **The Advisory Committee encourages the Secretary-General to continue to rigorously strive to contain costs in the construction of additional office facilities in Addis Ababa so as to ensure that the project is completed within the approved budget and scope.**

13. The Advisory Committee was informed that the budgeted contingency provision might be depleted by the completion date of the construction project. **The Advisory Committee considers that contingency provisions approved for construction projects serve to provide necessary safeguards for the Secretary-General to meet unforeseen cost overruns during project implementation. As a first option, cost overruns should be met, to the extent possible, from compensatory reductions identified elsewhere through efficiency measures. The Committee therefore expects that, at all times, the Secretary-General should endeavour to implement construction projects from within approved resources in order to obviate the need for drawdown from contingency provisions, which could be returned to Member States, as appropriate (see also para. 19 below).**

14. At the request of the Advisory Committee in its previous report on the progress of the construction at ECA (A/66/7/Add.3, para. 16), which was endorsed by the General Assembly, the Secretary-General provides updated information on the outcome of the review by the Office of Legal Affairs in relation to the discrepancies found in a bill of quantities resulting from an error on the part of the architecture and construction management consultant (see A/67/216, para. 36). It is indicated in paragraph 37 of the report that, in the light of the recommendations of the Office of Legal Affairs, the Commission informed the consultant that it intended to make a claim against it, although such a claim will not be entered into until the end of the project, when the extent of the damages is known. **The Advisory Committee requests the Secretary-General to report further on the status of this case in his next progress report.**

Office space utilization

15. The Advisory Committee was informed that the building under construction modernized and increased the size of the ECA work environment, and employed an

open space planning concept which promoted collaboration, openness and transparency in daily work, and that "touch-down" points were included in the construction plan to accommodate temporary staff and visiting officials. The Committee recalls that, in its report on the capital master plan for the year ended 31 December 2010 (see A/66/5 (Vol. V), paras. 83-91), the Board of Auditors had recommended that the Secretariat should consider ways in which to use space more efficiently before the final allocation of space, for example through the flexible use of desk space or "hot-desking", which allows staff to carry out their responsibilities and work at any workstation that is available, rather than assigning a specific desk and computer to each individual. The Committee also recalls that it had recommended, in its report on the feasibility study on the United Nations Headquarters accommodation needs for the period 2014-2034, that the Secretary-General should be requested to review and update the space allowance per person, taking the opportunity provided by the current modernization of buildings at Headquarters through the capital master plan and any future planned projects, also bearing in mind evolving industry standards (see A/66/7/Add.3, para. 43). In this regard, the Committee was informed that the Secretary-General was formulating a policy concerning office space allocation. **The Advisory Committee is of the view that the implementation of the flexible use of office space, or "hot-desking", which allows staff to carry out their responsibilities and work at any workstation, merits serious consideration in the United Nations system. The Committee therefore looks forward to the issuance of the space allocation policy, which it expects will incorporate industry best practice. In the interim, the Committee recommends that the General Assembly request the Secretary-General to implement the flexible use of office space in ongoing and future construction projects, where feasible.**

Africa Hall

16. Regarding the renovation of the Africa Hall, it is indicated in paragraph 43 of the report that ECA has finalized the terms of reference for a consultant to provide the design and specifications of the necessary works. Once the consultant has produced a final report, providing the design and specification of the necessary renovation works, the Commission will assess the programme and project scope, determine the duration of the project and identify the resources required. The Advisory Committee notes that the first phase of the renovation of Africa Hall has commenced, including urgent structural tasks such as roof waterproofing, perimeter wall repair and replacement of outdated plumbing and electrical systems, from resources under the approved programme budget for the biennium 2012-2013 for ECA, and that the waterproofing of the terrace and roof slab works have been completed (see A/67/216, para. 45). The Committee was informed that a comprehensive project scope for the renovation of the Africa Hall would be presented to the General Assembly during its sixty-eighth session. **The Advisory Committee looks forward to receiving further reporting on this project.**

III. Construction of additional office facilities at the United Nations Office at Nairobi

17. The report of the Secretary-General (A/67/217) is submitted pursuant to General Assembly resolution 66/247, in which the Assembly endorsed the

conclusions and recommendations of the Advisory Committee in its related report on the construction of additional office facilities at the United Nations Office at Nairobi (A/66/7/Add.3). The Secretary-General's report provides the outcomes of a post-completion review of the construction of the additional office facilities that was conducted to assess the implementation of the project, including a comparison between actual and forecast costs and benefits, an analysis of planned versus actual space utilization of the additional facilities, a review of the assumptions formulated at the outset of the project and the adaptations made over the implementation period, an assessment of the procedures used to ensure the successful completion of the project and lessons learned for future expansions. The report also provides information on the reasons that prevented some United Nations offices present in Nairobi from relocating to the United Nations Gigiri compound, as originally envisaged.

Cost review

18. It is indicated in paragraphs 1 to 5 of the report that the construction of the new office facility was concluded by the scheduled completion date of December 2010 and that the construction contract was to be completed after final payments were made in September 2012. The relocation of affected United Nations offices into the facility was accomplished by the end of 2011. The Advisory Committee recalls that it had welcomed the successful completion of the new office facility at the United Nations Office at Nairobi (see A/66/7/Add.3, para. 2).

19. It is indicated in paragraph 6 of the Secretary-General's report that the total final cost of construction at the United Nations Office at Nairobi was $23,962,537, which leaves an unspent balance of $1,289,663. The Advisory Committee notes that the unspent balance is inclusive of the unused portion of the budgeted contingency provision and that actual expenditure, net of the budgeted contingency provision, would actually reflect an overexpenditure of $252,690 in respect of the revised estimates contained in the previous report of the Secretary-General on progress in the construction of additional office facilities at the United Nations Office at Nairobi (A/66/336). **The Advisory Committee requests that, in future progress reports on major construction projects, the Secretary-General present the total expenditure net of budgeted contingency provisions, making a clear distinction between contingencies and actual savings on budgeted project costs.**

20. It is indicated in paragraph 6 of the Secretary-General's report that additional funds were required for construction costs and architect's fees, amounting to $290,000 and $90,000, respectively, as a result of "currency fluctuations" (see A/67/217, table 1). Upon enquiry, the Advisory Committee was informed that the construction contract for the additional office facilities at the United Nations Office at Nairobi had been denominated in Kenyan shillings and that the exchange rate at the time of the signing of the construction contract had been 80.2 shillings to the United States dollar, whereas the actual exchange rate at the time payments had been made to the contractor had averaged 77.4 shillings to the United States dollar in 2009 and 78.9 shillings to the United States dollar in 2010. The Committee notes, however, that the revised estimates for the construction of the office facilities contained in the Secretary-General's previous report were based on an exchange rate of 63 shillings to the United States dollar (see A/62/794, para. 39 (b)). The Committee was also informed that the prevailing inflation rate in Kenya had exceeded 25 per cent per annum between the time of the preparation of the estimates

contained in document A/62/794 and the signing of the construction contract in April 2009, and that the resulting increase in local construction costs attributable to inflation effectively had offset any savings that would have otherwise been achieved as a result of the depreciation of the shilling, with the construction cost increasing by $231,493 to $18,931,493, exclusive of architect's fees, as indicated in the progress report of the Secretary-General on the construction of additional office facilities at the United Nations Office at Nairobi (see A/64/486). It was indicated to the Committee that the architect's fees, in line with industry norms, had been calculated as a percentage of the costs under the construction contract. The Committee was further informed that the contract awarded to the architect in that instance had provided for compensation in the amount of 9 per cent of the construction costs, payable in United States dollars; however, actual compensation amounted to 8.4 per cent of total construction costs, because the architect was not entitled to fees for partitioning, access control and infrastructure upgrade costs.

21. **The Advisory Committee is of the view that the justification provided in the Secretary-General's report, which attributed the increased requirement for construction costs and the architect's fees to "currency fluctuations", fails to describe the full impact of the savings attributable to the depreciation of the shilling prior to the signing of the construction contract and does not indicate the magnitude of the increased requirement for the construction costs and the architect's fees that was attributable to inflation. The Committee considers that the Secretary-General's report could have benefited from greater transparency in the justification for the additional requirement for the construction contract and the architect's fees. The Committee expects the Secretary-General to include all significant contributing factors in the explanations for variances in performance reporting.**

22. It is indicated in the report that savings were realized in the amount of $127,310 under the provision for internal project supervision and management (see A/67/217, para. 6, and table 1). The Advisory Committee was provided with additional information on these savings, which are attributed to (a) reduced travel requirements for Headquarters staff to the United Nations Office at Nairobi, owing to the use of shared mission travel to ECA and other duty stations, as well as periodic teleconferences and videoconferences, and (b) the decision not to recruit a replacement for the project manager/architect, who retired nine months prior to the completion of the project. **The Advisory Committee welcomes the unencumbered balance arising from the deliberate management decisions as described above. The Committee considers that there is further scope for additional savings in project costs beyond these measures which should be explored for other ongoing and future construction projects.**

23. It is indicated in table 1 of the report that only $56,647 of the projected $1,119,200 were utilized for security requirements in the construction of the new office facilities at the United Nations Office at Nairobi, whereas expenditure for similar requirements for ECA were higher, at $759,800 (see A/67/216, annex). The Advisory Committee was informed, upon enquiry, that while additional security for managing access and securing the construction site at the United Nations Office at Nairobi had been required at the time the project had been budgeted because the construction had been inside the United Nations complex, under the contract negotiated, the security of the site and all construction materials had subsequently been included as the responsibility of the contractor. A different access point to the

construction site had also been created, which had been managed by the contractor and overseen by the United Nations Office at Nairobi Security and Safety Service for control purposes. **The Advisory Committee notes the reduced requirement for security, but it considers that better planning before initiating the procurement process, particularly in the definition of related requirements and specifications, could facilitate accuracy in the related resource requirements. The Committee requests the Secretary-General to share the lessons learned from the construction project at the United Nations Office at Nairobi to ensure that ongoing and future projects are based on an accurate assessment of requirements.**

Analysis of benefits and space utilization

24. An analysis of the benefits of the construction project are contained in paragraphs 9 and 10 of the Secretary-General's report, which indicates that while requirements had changed since 2009, the new facility fully satisfied the office space needs of all United Nations funds, programmes and agencies present in Nairobi at the time of occupancy in 2011.

25. The analysis of space utilization, contained in paragraphs 11 to 16 of the Secretary-General's report, provides information on United Nations and related entities that originally expressed interest in moving to the Gigiri complex, in comparison with those entities that have in fact moved there. It is indicated in the report that of the 16 entities that had expressed interest in 2008 in moving into the Gigiri complex and were included in the Secretary-General's report (A/62/794), only 8 entities actually moved there (see A/67/217, para. 13, and annex II). Of the eight entities that later decided not to move into the complex, four did not provide reasons for not doing so (A/67/217, para. 14) and 4 provided the reasons contained in paragraph 15 of the Secretary-General's report. Upon enquiry, the Advisory Committee was informed that two of the entities that had not provided any reasons in fact had relatively small offices in Kenya which were funded for a limited duration; the third entity, the World Meteorological Organization Subregional Office for Eastern and Southern Africa, was housed by the Kenya Meteorological Department and needed to remain in its current location for proximity and other operational reasons; and the fourth entity, the Office for the Coordination of Humanitarian Affairs Sudan Office, was no longer based in Kenya.

26. It is indicated in paragraph 12 of the Secretary-General's report that the new office facility is nonetheless occupied at full capacity and that, of the space originally required, 102 per cent was provided and is being used. The Advisory Committee notes that 11 United Nations entities that did not originally express interest have since occupied the office space remaining after 8 other United Nations entities decided not to move into the new office facility. The Committee recalls that the General Assembly, in its resolution 44/211, requested all organs, organizations and bodies of the United Nations system to establish common premises at the country level. The Committee was informed that the Secretary-General, however, had limited capacity to compel participation in common premises schemes by United Nations entities that did not fall under his budgetary responsibility. Upon enquiry, the Committee was also informed that, while there was a recognized reporting relationship of the heads of agencies, funds and programmes, insofar as they were appointed by the Secretary-General, there was in effect a full delegation of administrative authority to such heads, which allowed United Nations agencies,

funds and programmes to exercise discretion within their budgetary and operational settings. **The Advisory Committee is of the view that efficient utilization of office space for newly constructed premises requires firm commitments from participating United Nations entities. The Committee therefore considers that the Secretary-General should, to the extent possible, obtain firm commitments from all United Nations offices, agencies, funds and programmes operating in the same location prior to the commencement of major construction or renovation projects for common premises. The Committee further recommends that the General Assembly request the Secretary-General to ensure that opportunities for the co-location of United Nations entities are pursued in all duty stations in compliance with its resolution 44/211.**

Recommendation

27. **The Advisory Committee recommends that the General Assembly take note of the reports of the Secretary-General on the construction of additional office facilities at the Economic Commission for Africa in Addis Ababa and at the United Nations Office at Nairobi, taking into account the views and recommendations expressed in the present report.**